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SUBJECT: INDIA SCENESETTER FOR ASSISTANT SECRETARY BOUCHER

Classified By: Charge d'Affaires Steven White for Reasons 1.4 (B, D)

¶1. (SBU) On behalf of Ambassador Mulford, we welcome your upcoming visit and offer this snapshot of the bilateral relationship. Coming only days after the Nuclear Suppliers Group (NSG) plenary in Vienna, your visit gives us a chance to gauge where we stand in the NSG process and discuss next steps necessary to reach a Presidential Determination. You will also be able to underline the U.S. interest in pushing forward on the full range of bilateral issues. As you know, the unprecedented level of U.S.-India collaboration encompasses everything from defense cooperation to agriculture and reflects widespread support in both countries for widening existing ties and building new ones. American industry's discovery of the opportunities in India have reinforced a partnership built on a 2.5 million strong Indian-American community. With plans to double their investments in India, Microsoft, Cisco Systems, Intel, and others realize that India has the brain power necessary to make their firms competitive, especially in the flourishing Indian market. Visa issuances to Indians have skyrocketed. India is now the leading non-U.S. destination for National Institutes of Health research grants, and the largest supplier of foreign students to U.S. universities. Our militaries are moving closer together with increasingly sophisticated joint exercises, shared research and development, and the potential for important acquisitions that could create thousands of American jobs while aligning our countries strategically.

¶2. (SBU) While Indian officials would be loathe to admit publicly that India and the U.S. have begun coordinating foreign policies, we are working more closely together than we ever have, as exemplified by our parallel efforts to assist Afghan reconstruction and to maintain regional stability in Nepal. This cooperation reflects a transformation in India. For many decades, the default position was distrust and suspicion, but now we see an India that seeks increasingly to further shared interests. As a result, the Prime Minister's government -- more than any previous Indian government -- has set out to align itself with U.S. policies and practices as the means of emerging as a global player. Nothing better reflects this commitment

than the Prime Minister's willingness to risk his government in the July 22 confidence vote over the civil nuclear initiative. No Indian Prime Minister ever before staked his government on a foreign policy issue, much less one that involves strengthening ties to the United States. But significant obstacles still stand in the way of achieving this broader vision: the Left parties who quit the PM's coalition over the nuclear deal will continue to carp from the sidelines about the U.S.-India relationship in the run up to parliamentary elections. The United Progressive Alliance (UPA) government must manage its own old school skeptics while fending off challenges from the opposition Bharatiya Janata Party (BJP) and regional parties. While these political twists and turns will no doubt influence the speed at which India is prepared to pursue bilateral cooperation, the important point is that the Indian parliament (and public) were fixated in an unprecedented manner on India's relationship with the U.S. for months on end and decided, finally, to pursue cooperation.

Civil Nuclear Cooperation Initiative

13. (C) The Indian government for the most part shares our vision of the Civil Nuclear Cooperation Initiative as an essential part of transforming the overall relationship. According to the Foreign Ministry, it is India's "priority one." By the time your visit takes place, the NSG will have met in plenary session to discuss the India-specific exception from NSG guidelines. India has continued the

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lobbying of NSG members that began before the IAEA meeting, and Foreign Secretary Menon and Special Envoy Saran have departed for Vienna. While there are public expectations that India will obtain an exception, there have also been persistent leaks to the press that the GOI could walk away from the deal if the nuclear "skeptics" in the NSG are successful in imposing conditions which New Delhi views as maintaining an unequal relationship indefinitely or that, even by implication, condition cooperation on Indian acceptance of the Nuclear Non-Proliferation Treaty or the Comprehensive Test Ban Treaty. India is looking for some sign from the NSG that India will eventually be treated as an equal partner, even if that is not possible yet. During your visit, you will be able to gauge Indian reaction to the NSG plenary, review next steps and encourage India to do more than the bare minimum on its Presidential Determination commitments. You can expect your interlocutors to ask for your candid assessment of the prospects for the deal in Congress, given the short amount of time left in the session.

Regional Issues

14. (C) Under Prime Minister Singh's leadership, the Government of India is emerging as a responsible leader in the South Asia region, as well as Asia at large. India hosted a successful visit by President Karzai in early August and agreed to chip in a "new" 450 million dollars in reconstruction aid for Afghanistan (although some of it is to cover cost overruns). This would be on top of the 750 million dollars India had already declared. As you heard from Foreign Secretary Menon in Colombo, India encourages democracy in the region, but is worried by continuing political instability in both Nepal and Bangladesh and by the surge in violence in Sri Lanka. On North Korea, New Delhi did the right thing recently by denying clearance to a suspicious flight from Pyongyang. India and China have sought warmer relations by engaging in a strategic dialogue that separates the contentious border issues from a broader engagement. Bilateral trade has been growing at about 40 percent annually, but India's large trade deficit with China has led to worries among Indian businesses. Musharraf's resignation worries them more, even though public statements have focused on India's not having a position on Pakistani

domestic politics. National Security Advisor M.K. Narayanan said even before Musharraf's resignation that India "abhors" the political vacuum in Pakistan. New Delhi does not know who's in charge in Pakistan and is worried that extremists will take advantage of the situation to launch more cross-border attacks. Anger over the bombing of the Indian Embassy in Kabul is still fresh and Indians are convinced Inter-Services Intelligence was behind it. Firing across the Line of Control is up this year, heightening India's concerns. Meanwhile, the Composite Dialogue to address bilateral issues has stalled as New Delhi waits for an interlocutor. We still diverge with India over tactics towards Iran and Burma, although we ostensibly share the same goals. New Delhi was taken aback by Tehran's complaints about the U.S.-India nuclear deal at the July Non-Aligned Movement meeting.

Domestic Politics

15. (C) The election campaign never ends in India because there is always an important poll just around the corner. The current political season just kicked into high gear as national elections and some key state elections are due in the next few months. Every move by the national and regional political parties and their leaders is aimed at positioning themselves for the election. The current Congress Party-led United Progressive Alliance (UPA) coalition government staggers into its final few months bruised and battered by a

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series of setbacks in state elections during the last year and soaring inflation. It managed to slow the rot by confronting its Left Party allies over the US-India civil nuclear deal and winning a key July 22 Parliamentary trust vote. The afterglow of its triumph was short-lived, however, as it was followed quickly by a series of terrorist bombings and incidents in Gujarat which left the Indian public disconcerted. Renewed violence in Jammu and Kashmir has also raised questions about the UPA's ability to manage national security issues with a sure hand.

16. (C) The opposition Bharatiya Janata Party (BJP), in contrast, had the wind in its sails after its thumping wins in state elections over the last year, but suffered a severe setback in July when it was defeated in the Parliamentary trust vote. It is impossible to predict at this time which party will emerge on top in the national elections. But it is safe to say that neither the Congress Party nor the BJP is likely to win a majority on its own and either will have to forge a coalition with the smaller regional parties to form a government. The smaller parties will continue to exert disproportionate influence. While both the BJP and the Congress support a closer US-India relationship, their ability to move forward aggressively will be constrained by the increasing power of smaller parties which have narrower agendas that frequently do not extend to foreign policy issues. Nevertheless, the nuclear deal and a closer strategic relationship with the United States have generated an extraordinary public debate in India during the last year. It is unprecedented for a foreign policy issue to so dominate the domestic Indian political agenda. Indians from all walks of life were forced to ask themselves whether they favor closer ties with us. We have won this debate hands down and, as a result, the US-India relationship has a strong foundation of which to grow over the coming decades.

17. (C) Aside from the civil nuclear deal, the hottest political issue this summer has been the renewed unrest in Jammu and Kashmir, which threatens to roll back some of the Indian government's hard-won gains in restoring peace and normalcy in the state. It is likely that state assembly elections, due in October, will be postponed. The tourists have disappeared and economic activity has slowed. The disturbances began in June when the government first transferred 100 acres of public forest land to the Amarnath

shrine to be used to host pilgrims and then reversed itself when protests against the transfer escalated. Competing protests, sometimes violent, erupted both in the valley and in Jammu. The UPA government, which was blind-sided by the controversy, has so far shown no signs that it has the skills or the imagination to resolve the situation. The separatists, especially the hard-liners among them such as Syed Ali Gilani, are the big winners because they have reemerged after having been steadily sidelined as peace and prosperity began to improve. The BJP continues to benefit from the Hindu backlash to what many perceive as an unreasonable Kashmiri Muslim attitude towards the Amarnath pilgrimage. The international community has remained restrained in its response to the crisis. Any public statements by U.S. officials on this matter are likely to be misinterpreted and will only add further fuel to this fire.

Terrorism -----

18. (C) Terrorism and the government's response to it has increasingly become a political issue as India continues to rank among the world's most terror-afflicted countries. The conflict in Jammu and Kashmir has heated up dramatically in the last few weeks, extreme leftist Naxalites and Maoists in eastern and central India continue to operate with impunity, ethno-linguistic tensions in the northeastern states remain at least on simmer, and terrorist strikes nationwide by

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Islamic extremists take lives and disrupt activity across the country. The most recent series of attacks in late July, in Ahmedabad and Bangalore, appear to have been designed to stoke tensions between Hindus and Muslims. The police have arrested several suspects in these bombings who are allegedly connected to the Students' Islamic Movement of India (SIMI). Indian officials often point to Pakistan's Internal Services Intelligence (ISI) as being behind many attacks. The extreme leftists (Naxalites) and ethno-linguistic separatists are in general home-grown insurgents, although there are some signs of links to groups in Nepal and Bangladesh. The opposition has already started to make political hay out of the recent terrorist attacks, claiming that the Congress-led government is weak and ineffectual on terrorism. Ambassador Dell Dailey, the Secretary's Coordinator for Counterterrorism, will lead a multi-agency delegation at bilateral counterterrorism talks in Delhi on August 25. We look forward to your participation in part of those talks.

Economic Ties -----

19. (SBU) The U.S.-India economic relationship, for decades narrow and circumspect, is gathering steam and now promises to be a key driver of our overall bilateral relationship. The United States is India's largest trading partner and its largest foreign investor. Two-way trade grew to 42 billion dollars last year, its highest level ever, with U.S. exports surging 75 percent. Our publicly stated goal is to double bilateral trade by the end of 2008, a goal we are well on the way to meeting. The U.S.-India economic partnership is creating increasingly complex economic links which are having a profound impact on our respective economic outlooks in the 21st century. The Indian economy continues to be the second fastest growing economy after China, even as high global commodity prices and financial uncertainty are prompting a moderation in the expected GDP growth rate to 8 percent this year. India will find it hard to increase or even sustain these high growth rates in the medium term unless it undertakes a second generation of critical but politically difficult reforms. While the government is led by economists who understand what needs to be done, the economic reform program was stalled for a long time as the UPA confronted strong opposition from the Left, BJP and within the Congress party itself. Since the Left withdrew its support, there has been speculation that the government might take another run

at these reforms, but election concerns may thwart these plans in the short run. As it is, lagging growth in agriculture and a weak infrastructure constrain growth. Economic liberalization has been slow to come to the agricultural sector, which supports more than half of the country's population and yet accounts for only 18 percent of GDP. The top Indian economic priorities are infrastructure development and spreading economic benefits into rural India.

Bilateral Issues -- Opportunities to Build Partnerships

¶10. (C) We wanted to highlight two topics in the bilateral relationship that merit special focus -- defense and agriculture. On defense cooperation, the U.S. and India have conducted a series of joint and service-to-service exercises of increasing scope and capability since sanctions were lifted in 2001. Last year saw the first-ever visit by a Nuclear Aircraft Carrier to India and India's largest multilateral naval exercise in modern history, MALABAR 07-02. Planning is ongoing for MALABAR 08 this October. During this month alone U.S. Army Special Forces were exercising at the Indian Counter-Insurgency Jungle Warfare School in the northeastern state of Mizoram while eight Indian Air Force SU-30s were taking part in the Red Flag air combat exercises at Nellis Air Force Base in Nevada. The Indian government

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has also indicated far more interest in acquiring defense items and building an arms relationship with the U.S. Defense sales, dormant for over 40 years while India was essentially a Soviet client, have just started to take off, with a billion dollar deal for six C-130s finalized in January as the latest breakthrough. We're hoping to finalize a separate billion dollar deal for P-8 maritime patrol aircraft, and both Boeing and Lockheed Martin are competitors for the estimated 10 billion dollar combat aircraft bid to be decided in 2009. While there is a real opportunity, India's slow-rolling on three key defense agreements -- end use monitoring for military systems with sensitive U.S. technologies, a logistics support agreement to facilitate joint military exercises, and a communications agreement to foster interoperability -- is an obstacle to realizing the promise of full strategic partnership. Underlining the importance of coming to terms on these issues will help make Defense Minister Antony's September 7-10 visit a productive one.

¶11. (SBU) On agriculture, with the Agricultural Knowledge Initiative (AKI) ending this year following its 2005 launch by President Bush and PM Singh, the Indians have told us they are eager to continue bilateral cooperation in this sector that employs more than two-fifths of all Indians workers, most at a subsistence level. The Indians have responded positively to our concept of a four pillar approach -- productivity, market efficiency, environmental sustainability, and finance/insurance -- that would procedurally look similar to our successful Energy Dialogue with India. However, we will not be able to table our proposal to India until we can back it up with USG funding. The Indians will ask you what is the likelihood of US funding for a bilateral agricultural initiative next year.

¶12. (SBU) On the other significant bilateral issues we want to discuss -- health, counterterrorism, education and energy cooperation -- progress has been slow for the reasons you know well. On any bilateral issue we take up with India, the wheels of the bureaucracy grind slowly and, at times, our interest in moving the relationship forward runs up against a lack of capacity in the Indian government to handle all of our desiderata as quickly as we would like. But progress can be made, albeit slowly, and work in these areas is critical to the relationship because progress in building a partnership in these sectors will bring home to the average Indian the value and importance of ties with the U.S.

¶13. (SBU) Despite India's growth during the past fifteen years, roughly 300 million Indians live on less than a dollar a day; 700 million Indians live on less than two dollars a day. An unhealthy population constrains economic growth in parts of India; some states in northern India possess health indicators on-par with the poorest countries of sub-Saharan Africa. According to most recent estimates, India with 2.5 million HIV/AIDS cases is the third highest HIV/AIDS infected population worldwide, after South Africa and Nigeria. One quarter of the world's deaths of children and women in childbirth occur in India. Forty-six percent of children under 3 years of age are malnourished. Poor health conditions take an economic toll in various ways, including continued expenditures on combating diseases that should have been eliminated and decreased labor productivity and human capacity. India's education system is not providing the numbers of people with the necessary skills for the modern economy because of poor quality primary education and limited vocational training. The impact of poor basic education and work force development is that sixty percent of children drop out before grade 10 and 10 million children are out of school. Finally, while India's energy consumption has more than doubled over the last quarter century, half of the country's population still lacks easy affordable access to electricity. India realizes the threats these challenges pose

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to its continued economic progress. Indian public and private sector partners look to U.S. expertise and knowledge, including through the U.S. assistance program, to direct resources with appropriate policies, strengthened institutions and state-of-the-art technologies and expertise.

Management Issues

¶14. (SBU) The rapidly expanding scope of the bilateral relationship has put real pressure on our aging mission infrastructure. Requests by other agencies to place more personnel at the Embassy to work on developing ties run up against space restraints, which will require significant resources to fix. We're also in need of further management support positions and consular positions to keep up with exploding demand, which is also driven by the rapid transformation of the relationship. While the Mission has vast real property in country, the GOI has made it clear that absent positive movement on the New York City tax case against India, our ability to leverage these resources for needed facilities and housing, to include obtaining occupancy permits for our new consulate in Mumbai, will be on hold. U/S for Management Kennedy and I are deeply engaged on that issue.

Your Meetings

¶15. (SBU) We have requested official meetings for you in New Delhi with Special Envoy Saran, National Security Advisor Narayanan, Deputy Planning Director Ahluwaliah, and Joint Secretary Kumar. We are exploring other meetings as well as a lunch with commentators and experts focused on the Civil Nuclear Initiative. You will have an excellent opportunity to gauge where the Civil Nuclear Initiative is heading after the NSG plenary and underline what needs to be done in order to bring this to closure. You will also have the chance to touch on broader themes of cooperation, particularly in the area of education, that underline the U.S.'s interest in building a broad strategic relationship.

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